

Thursday, 5 December 2024

The Council's Economic Growth Leadership Role

Purpose of report:

In August 2023, the Government announced changes to the delivery of economic growth functions in local areas from April 2024. Functions previously held by Local Enterprise Partnerships (LEPs) would transfer to Upper Tier Local Authorities (UTLAs). In Surrey, these functions were previously delivered by Coast to Capital LEP and Enterprise M3 LEP but have now formally transferred to Surrey County Council (SCC).

This select committee report is seeking to cover several connected points that relate to the LEP transition following on from the previous report that the committee received in December 2023. It provides an update on the LEP transition arrangements as well as an opportunity for the committee to consider the reframed priorities of the local economic growth strategy and draft proposal for how legacy LEP funding will be used to support local growth initiatives.

Executive summary:

1. In April 2024, the Council formally took on enhanced responsibilities for supporting local economic growth that were previously delivered by the two LEPs in Surrey. Since taking on the responsibilities, the Council has been delivering effectively for local businesses in a number of important ways, such as launching a new business-facing website, the Surrey Growth Hub, the Surrey Careers Hub, and re-launching the Surrey Business Leaders Forum.
2. Surrey was covered by two LEPs, which has added an additional layer of complexity to the transition and required the Council to negotiate separately across both LEP areas.
3. A Memorandum of Agreement has been signed with Hampshire County Council which has secured a portion of legacy funding from Enterprise M3 LEP. After factoring in Accountable Body fees and winddown costs, the Council could receive up to £23.4m over the next seven years to 2031.

4. A core requirement Government set for taking on the LEP responsibilities, was for UTLAs to 'lead strategic economic planning' and put in place a local economic growth strategy. Surrey has an existing economic strategy statement; Surrey's Economic Future 2030, however, the strategy was developed towards the end of the pandemic, and the Surrey and UK economy is now in a very different position, so now is a good opportunity to review and refresh the strategy.
5. Fundamentally the core mission of the economic growth strategy has not changed, which is to increase Surrey's productivity and foster innovation, by building on the county's economic strengths to support a resilient and high-value economy that creates opportunities for Surrey's residents to benefit from and contributes to sustainable growth across the UK. This is underpinned by three reframed strategic priorities:
 - a. Ensuring that Surrey businesses have the workforce they need to grow
 - b. Creating the right conditions for Surrey businesses to start, grow and thrive
 - c. Enabling economic infrastructure to unlock growth through place-based approaches
6. A Strategic Funding Framework is being developed for the legacy growth funds secured as part of the LEP integration process, so that the funding can be utilised to address local opportunities and challenges that will help increase Surrey's productivity and foster innovation.
7. The Framework will include the vision and principles that will guide investment decisions, set out the approach to funding rounds, and outline the decision-making and governance process. It is proposed that Select Committee will receive an annual report about the performance of the Surrey Growth and Innovation Fund and updates on funded projects.

Introduction:

8. In April 2024, the Council formally took on enhanced responsibilities for supporting local economic growth that were previously delivered by the two LEPs in Surrey¹. This was as the result of a change in Government policy in August 2023², which set out new arrangements for UTLAs covering whole county geographies or functional economic areas (FEAs)³ to take on this new role.
9. Cabinet have received two reports⁴ previously during the LEP transition process which set out the key implications for the council and the steps being taken to put the council in a strong position to take advantage of the new functions. It was agreed as part of the February 2024 report that a further update should be brought to Cabinet on the agreed arrangements with the other UTLAs (previously

¹ Enterprise M3: Elmbridge, Guildford, Runnymede, Spelthorne, Surrey Heath, Waverley, Woking. Coast to Capital: Epsom & Ewell, Mole Valley, Reigate & Banstead, Tandridge.

² '[Guidance for Local Enterprise Partnerships \(LEPs\) and local and combined authorities: integration of LEP functions into local democratic institutions](#)', HM Government, (4 August 2023)

³ Functional Economic Areas- The spatial level at which local economies and markets operate.

⁴ '[Local Enterprise Partnership \(LEP\) Integration](#)', Surrey County Council, (31 October 2023) AND '[Promoting and supporting sustainable economic growth in Surrey](#)', Surrey County Council, (27 February 2024)

covered by Enterprise M3 and Coast to Capital) on how to manage any ongoing legacy issues post-LEP transition, as well as details on how any legacy funding would be utilised aligned to an updated local economic growth strategy. This Cabinet decision is planned for February 2025, so this report gives the select committee an opportunity to provide pre-decision views and recommendations for the Cabinet.

10. Since taking on the LEP responsibilities in April 2024, the Council has been delivering effectively for local businesses in a number of important ways:
 - a. A new website, Business Surrey⁵, was launched providing a single gateway for Surrey businesses to access information, advice and guidance they need to support their growth. The reach continues to grow with 12.6k unique website users (29.2k total website views) and 501 enquiry forms completed by the end of August (achieving a conversion rate of 3.98%, nearly double the industry standard of 2%).
 - b. The Surrey Growth Hub has been launched which provides high-growth businesses⁶ with free tailored 1:1 support from experienced Business Advisors. Up to August, the service as provided support to 280 businesses, with 178 of those receiving light touch intensity support (up to 1 hour) and 102 of those receiving medium intensity support (1 to 12 hours). It is funded by government grant to April 2025.
 - c. The Surrey Careers Hub which is jointly funded by the Careers & Enterprise Company and the Council has recently completed its first academic year which has seen increased performance across all Gatsby benchmarks⁷ and achieved its target of 90% of schools achieving at least 3 Gatsby benchmarks.
 - d. Re-launch of the Surrey Business Leaders Forum⁸ in line with Government's requirement for a strong business voice including local decision-making. The Forum now brings together close to 40 individuals representing a diverse range of businesses, from SMEs to Surrey-based multinationals, including businesses from Surrey's priority sectors alongside employer representative bodies.

LEP Transition Arrangements:

11. As Surrey was covered by two LEPs, this added an additional layer of complexity to the transition and required the Council to negotiate separately across both LEP areas.
12. For the Enterprise M3 area, the Council signed a Memorandum of Agreement with Hampshire County Council to agree arrangements covering the Enterprise M3 area on 22 August 2024. The legal agreement sets out the governance arrangements for working with Hampshire County Council, and how assets and liabilities will be split between both local authorities.

⁵ <https://www.businesssurrey.co.uk/>

⁶ High growth enterprises are defined as all enterprises with average annualised growth greater than 20% per annum (turnover or employment), over a three-year period.

⁷ 'Gatsby Benchmarks', *Careers and Enterprise Company*

⁸ 'Surrey businesses gain a greater voice in local economic decision-making', *Business Surrey*, (4 September 2024)

13. As part of the agreement, legacy funding from Enterprise M3 LEP will be divided between Hampshire County Council and Surrey County Council based on Working Age Population, with the Council expecting to receive a 51% share of funding. After factoring in Accountable Body fees and winddown costs, the Council could receive up to £23.4m over the next seven years to 2031. It is important to note that there will be some uncertainty with long-term debtors (e.g. renegotiating terms, or writing off bad loans), so these figures are based on current projected repayments to the Accountable Body, but this could change over the coming years. To date, the Council has received £8.7m of predominantly capital funding.
14. The position with Coast to Capital is less advanced and has been made more complex by the LEP deciding to continue as a private company.
15. Council Officers are seeking to put in place a similar Memorandum of Agreement with Brighton & Hove City Council and West Sussex County Council, with the first instalment of former Coast to Capital LEP funding expected in April 2025. The total funding available for disaggregation across the three UTLAs covered by the former Coast to Capital LEP is expected to be considerably less than from Enterprise M3 LEP.
16. Council officers have worked with the Internal Audit team to support the transition of the LEP functions through the provision of advice around aspects of governance, control, and risk management. An internal audit report into the approach to the transition and the arrangements that have been put in place to has recently been completed and received an Audit Opinion of 'Reasonable Assurance'. Specific reference was made within the audit report to the active role taken by Council Officers in ensuring that the Council's interests are protected through a fair and equitable dissolution of assets.

Refreshing Surrey's Economic Growth Strategy

17. A core requirement Government set for taking on the LEP responsibilities, was for UTLAs to 'lead strategic economic planning' and put in place a local economic growth strategy⁹. Areas already with an economic strategy have been encouraged to review and refresh them and make sure they cover:
 - a. Local economic opportunities (including areas of comparative advantage)
 - b. Challenges
 - c. Opportunities for strategic connections across regions.
18. It is important to note that the strategy should be broader than just the Council's strategy and is there to 'give direction to local economic policies and help coordinate the institutions with an ability to drive local economic growth', and 'areas bidding for local growth funding in future may be asked to demonstrate how a proposal fits into their local economic strategy'.

⁹ ['Guidance for local authorities delivering business representation and local economic planning functions'](#), HM Government, (19 December 2023)

19. Surrey has an existing economic strategy statement; Surrey’s Economic Future 2030¹⁰, which was approved by Cabinet in December 2020. This strategy has been integral to shaping the Council’s economic growth work programme to date¹¹. However, the strategy was developed towards the end of the pandemic, and the Surrey and UK economy is now in a very different position, so now is a good opportunity to review and refresh the strategy so that it is more reflective of the county’s current economic context and the enhanced leadership role the Council has taken on.

20. The core element of refreshing the strategy has been conducting an assessment of Surrey’s current and future economic landscape and updating the relevant socio-economic data to generate new insights. Since the pandemic there have been a number of notable trends observed in the macro-economic data that paint an updated picture about Surrey’s economy post-Covid.
 - a. GVA and productivity – Surrey’s annual GVA growth (2.5%) lagging most CIPFA “nearest neighbours”¹² (such as, West Sussex, Oxfordshire, Hampshire, Cambridgeshire) and UK average (4.5%), largely explained by the sluggish growth in several knowledge intensive service sectors. High-growth businesses¹³ – total numbers contracted significantly by 40% between 2018-2021 (faster than CIPFA and UK average), but now showing signs of recovery.
 - b. Knowledge Intensive Services¹⁴ – the proportion of all businesses that are knowledge intensive is significantly higher in Surrey at 35.1% of all businesses, compared to 24.9% and 24.3% in the CIPFA average and nationally. However, recently Surrey has seen a larger decline in these businesses than all CIPFA counties besides Hampshire.
 - c. Business births and survival – Surrey has a lower business birth rate than comparators, and business birth rates in Surrey were still below pre-pandemic levels. Although, businesses that start up in Surrey are more likely to survive than comparators, especially for businesses born in 2019.
 - d. Tradable jobs¹⁵ – Surrey has a high concentration of tradeable jobs in comparison to other CIPFA counties, tradeable sectors are also showing strong growth in employment since 2017, accounting for a higher proportion of total employment.
 - e. Local skills gaps – the proportion of Surrey businesses reporting a skills gap or skills-shortage vacancy has worsened to 23% increasing by 4%.

21. Alongside reviewing the evidence base, a series of stakeholder engagement sessions have been held recently with local businesses and partners. This began with a joint workshop between the Surrey Business Leaders Forum and One Surrey Growth Board to consider the “drivers” that will affect our economy over

¹⁰ [‘Surrey’s Economic Future’](#), Surrey County Council, (December 2020)

¹¹ [‘Partnerships, Prosperity, and Growth Update’](#), Communities, Environment, and Highways Select Committee, (4 December 2023)

¹² [‘Nearest Neighbours Model’](#), CIPFA

¹³ High growth enterprises are defined as all enterprises with average annualised growth greater than 20% per annum (turnover or employment), over a three-year period.

¹⁴ Businesses in Knowledge intensive services are defined as businesses in Information and communication, Financial and insurance activities, Professional, scientific and technical activities.

¹⁵ Defined as those that produce goods and services that can be traded outside of the region.

the next decade to help inform Surrey's economic growth priorities. In addition, there have been sessions held with Surrey's universities through the Innovation Board, the education and skills system through the Skills Leadership Forum, and local government via the Economic Development Officers Group and the Surrey Place Leaders Forum.

22. The recent engagement and analysis of the latest evidence has reinforced thinking that the priorities of the current strategy, while still relevant, need reframing slightly to ensure they are widely recognised and can inform the next phase of an outcomes-focused strategic delivery plan.
23. Fundamentally the core mission of the economic growth strategy has not changed, which is to increase Surrey's productivity and foster innovation, by building on the county's economic strengths to support a resilient and high-value economy that creates opportunities for Surrey's residents to benefit from and contributes to sustainable growth across the UK. Surrey is in a strong position with a highly mixed and polycentric economy with several nationally significant sectors and emerging economy sub-sectors. These are the key engines of innovation, productivity, growth, employment, investment, and sustainability, which contribute to Surrey's economic "USP".
24. Underpinning this mission are three interconnected strategic priorities that are core components that will help deliver local growth:
 - a. **Ensuring that Surrey businesses have the workforce they need to grow** – Surrey's future will involve an increasingly high-value and 'digitised' economy. The evidence highlights immediate workforce challenges which are likely to get exacerbated and hold back economic growth. Improving access to the right workforce will support local businesses to grow and create new opportunities for Surrey's residents to benefit from.
 - b. **Creating the right conditions for Surrey businesses to start, grow and thrive** – We are an entrepreneurial county which contributes to a vibrant and dynamic economy. This innovation is leading to the development of new ideas, products and processes and their wider adoption. But we know that many SMEs in Surrey are facing challenges with how to grow and scale-up their businesses and it is important to make sure Surrey has the right local conditions in place to enable successful firms to expand and new innovative firms to emerge and grow.
 - c. **Enabling economic infrastructure to unlock growth through place-based approaches** – Surrey is polycentric, benefitting from a widely distributed network of strategic towns and sub-regional clusters of several nationally significant sectors and sub-sectors. We need to align our economic growth interests with our spatial and infrastructure priorities to help tackle the physical barriers to unlock growth, such as protecting and enhancing commercial sites, the rollout of digital infrastructure, and housing delivery.
25. In February 2025, Cabinet will be asked to endorse these reframed strategic priorities and approve the updated strategy and five-year strategic delivery plan.

Surrey Growth and Innovation Fund- Strategic Funding Framework:

26. As noted earlier, the Council has managed to secure a portion of legacy growth funds from the Enterprise M3 area, and in the future may receive a small amount of funding from the Coast to Capital area. It is important to recognise that the Council is in a privileged position to have secured these funds at a time of continued constrained budgets and reductions in funding. Therefore, there is a responsibility on the Council to use the funding in a sustainable way that delivers the maximum strategic economic impact and return from what is invested.
27. As agreed by Cabinet in October 2023, the funding will be ring-fenced and 'focused on Surrey's sustainable economic growth', and utilised in a similar way to the LEPs, but consolidated under a single brand: The Surrey Growth and Innovation Fund ("The Surrey GIF"). This broad definition provides a certain level of flexibility to use the funding on a wide range of projects that align with the priorities of the refreshed strategy, such as feasibility studies for infrastructure projects that unlock economic growth, seed funding for businesses to pilot new ideas and projects, match-funding to support larger capital projects, or co-funded skills programmes to meet local business needs and support Surrey residents into local opportunities
28. Creating a Strategic Funding Framework will provide a consistent, long term, and transparent mechanism through which funding for these types of projects from the Surrey GIF will be drawn down and utilised, aligned to the priorities of the economic strategy.
29. Core elements of the Strategic Funding Framework will include:
 - a. The vision and principles that will guide our local growth investment
 - b. Set out the different types of funding that can be supported
 - c. Approach to discrete "funding rounds"
 - d. Make provision for exceptional and strategically important projects
 - e. Decision-making and governance
 - f. Monitoring and reporting
30. The Surrey GIF will focus on supporting a few objectives that will help increase Surrey's productivity and foster innovation. Currently the draft objectives will focus on:
 - a. Economic growth and resilience
 - b. Innovation and R&D
 - c. Key clusters and sectors
 - d. "Global Britain" and international trade
 - e. Local Workforce
31. The framework will establish several principles which will guide the criteria of funding rounds and how investment decisions are made. The principles below are currently in draft:
 - a. **Strategic alignment** – Contribute to long-term sustainable economic growth with clear links to at least one of the three strategic priorities.

- b. **Innovation** – Demonstrate innovation and be future-oriented to help foster Surrey’s competitive advantages.
 - c. **Scalability** – Have the potential to support significant growth and be scaled regionally and/or across sectoral clusters.
 - d. **Partnership and collaboration** – Encourage collaboration between businesses, universities, schools, public sector, and other stakeholders.
 - e. **Impact and legacy** – Focus on long-term value creation, favouring initiatives that will create a lasting economic impact.
 - f. **Place-based impact** – Consider geographic spread of investment decisions and take a more targeted approach where necessary.
 - g. **Financial viability and sustainability** – Robust business cases that demonstrate sound financial planning, risk management strategies, and clear paths to financial sustainability.
32. Further consideration is being given to the decision-making and governance arrangements. The intention is to give an enhanced role for the One Surrey Growth Board, which is Chaired by the Cabinet Member for Highways, Transport and Economic Growth, in agreeing joint positions on proposals to help inform Cabinet decisions where appropriate.
33. As part of these governance arrangements, it is proposed that the Communities, Environment and Highways Select Committee receives an annual report about the performance of the fund and updates on funded projects.
34. The Cabinet report planned for February will seek approval for the Strategic Funding Framework, launch the first funding round, and agree any immediate SCC-led projects to fund that have been identified.

Recommendations:

35. The Communities, Environment and Highways Select Committee is asked to
- a. Note the progress that has been made to conclude the LEP transition process.
 - b. Endorse the reframed strategic priorities in the refreshed local economic growth strategy.
 - c. Endorse the approach to create a Strategic Funding Framework as the mechanism through which investment decisions are made using the LEP legacy local growth funds.
 - d. Approve the role of the Committee to receive an annual report about the performance of the Surrey Growth and Innovation Fund and updates on funded projects.

Next steps:

36. Finalise the evidence base refresh to check and challenge assumptions and translate into the final version of the local economic growth strategy.
 37. Continue partner and stakeholder engagement to test ideas and identify opportunities for collaboration and joint delivery.
 38. Seek Cabinet endorsement in February 2025 for the refreshed strategic priorities and approve to launch of the Surrey Growth and Innovation Fund.
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Sources/background papers

[‘Local Enterprise Partnership \(LEP\) Integration’](#), *Surrey County Council*, (31 October 2023)

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